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Portfolio Update

August 16, 2021

On Monday, we completed the cycle with our tactical adjustments across our ETF series portfolios, recommitting the proceeds we took from Emerging Markets at the end of July to purchase Europe and bring it to something approximating a benchmark weight.

As we discussed in our Summer newsletter, the consensus earnings-per-share growth in Europe is expected to expand over 40% in 2021 after contracting over 25% in 2020 based on MSCI indices. European shares have been performing well so far this year with the MSCI Europe index up 18% through the end of July, on par with the S&P 500. Valuations in Europe compare favorably, with the 12-month forward PE ratio currently standing at 15.7x versus the rather full 20.3x for the S&P 500. The performance of Europe in the global equity rally so far this year is an encouraging sign that further gains may become a reality as market participation expands.

Adding to the case for Europe, European stocks have underperformed US stocks for over five years now. The Eurostoxx 600 has climbed 69% over the five year period ending July 31st which is a respectable advance, but trails the S&P 500 by more than 53%. Over the past several months, European shares have been keeping pace with their US counterparts, which may suggest that there is a rotational opportunity on the Continent taking into account the valuation advantage. The combination of challenges in the Emerging Markets and favorable comparisons with our home market (US) drove the decision to raise our exposure in Europe to neutral relative to our benchmarks as opposed to allocating to other segments of the global asset map.

As a reminder, our ESG portfolios are principally stocked with active management and as such our exposure to Asia Pacific is driven by fundamentals including a strong bias to good governance and transparency, economic justice, equal access and opportunity, good environmental practices, and other sustainability factors which skew the portfolio away from China except for select opportunities. The result is regional exposure with a significant quality and more developed market bias, meaning that it is not expressly an EM strategy. These same biases have also driven the managers to favor developed Europe when investing outside the US. Therefore, we did not feel the same impulse to adjust our global allocation in our ESG series portfolios because many of our concerns and expectations we believe are inherently addressed in the bottom up strategy already.

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Diversification and strategic asset allocation do not guarantee a profit nor protect against a loss in declining markets. All investments are subject to risk, including the loss of principal.

The information contained herein is based upon the data available as of the date of this document and is subject to change at any time without notice.

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An investment in small/mid-capitalization companies involves greater risk and price volatility than an investment in securities of larger capitalization, more established companies. Such securities may have limited marketability and the firms may have more limited product lines, markets and financial resources than larger, more established companies.

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ETFs included in portfolios may charge additional fees and expenses in addition to the advisory fee charged for the Selected Portfolio. These additional fees and expenses are disclosed in the respective fund/note prospectus. For complete details, please refer to the prospectus.

For additional information regarding advisory fees, please refer to the Fee Summary and/or Fee Detail pages (if included with this report) and the program sponsor's/each co-sponsor's Form ADV Part 2, Wrap Fee Brochure or other disclosure documents, which may be obtained through your advisor.

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